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Understanding that the Biggest Obstacle to Access is Cost

The Health Care Access and Equity Act of 1999

The biggest problem facing consumers of health care in this country is access, with some 43 million Americans uninsured. While the Kennedy health-care mandates bill would <u>expand liability for employers</u>***. Republicans would*** <u>expand access for workers</u>***, extending health insurance to millions more Americans simply by making it more affordable.***

Unlike their colleagues on the other side of the aisle, Republicans understand that the biggest obstacle to access to health care in this country is the price tag. This is due in part to the tax code's inequitable treatment of those people who do not receive tax breaks through their employer. The Health Care Access and Equity Act, S. 1274, introduced today by Senators Grams, Roth, and Abraham, opens doors to the uninsured and the under-insured, by providing to some 16 million Americans the same tax advantages for purchasing health insurance as are offered to big businesses today [source: Joint Committee on Taxation].

This bill will create the most comprehensive tax-deductible health-care insurance coverage system in U.S. history, and will increase access to health care by:

— Allowing 100-percent income-tax deductibility for the purchase of qualified health insurance by any employee who was not offered employer-subsidized insurance;
— Allowing 100-percent deductibility for long-term care insurance for anyone whose insurance is not subsidized by an employer;
— Allowing immediate 100-percent income-tax deductibility for insurance for the self-employed;
— Providing the same enhanced Medical Savings Account (MSA) and Flexible Savings Account (FSA) provisions as those contained in the Republican Patients' Bill of Rights Plus (S. 300, which has 50 cosponsors); and
— Allowing FSAs to be used for long-term care insurance.

The total cost of the bill, according to the Joint Committee on Taxation, is $76.3 billion over 10 years, amounting to less than a dime from every non-Social Security surplus dollar.

Increasing Access, Choice, and Portability for 16 Million Americans

- All individuals without access to employer-subsidized health insurance will be able to receive a full tax deduction. They will be able to choose any qualified plan and the tax break will be their own, not their employer's. They will be able to carry it with them to any job where an employer does not subsidize employees' insurance.

- It will directly lower the cost for all who do not now have insurance — at least by roughly 15 percent for every income-tax-paying individual or family.

- It will also indirectly lower the cost for those who currently have insurance by expanding the overall insurance market and thus reducing the cost-per-policy as new products are devised and market efficiencies are developed.

Tax Treatment of Health Insurance Under Current Law Impedes Access

Under current law, individuals are very limited in their ability to take tax deductions for their health insurance costs: deductions are available only for their out-of-pocket costs that exceed 7.5 percent of their adjusted gross income (AGI), or through their employer. For those who are self-employed, they may deduct 60 percent of their insurance costs currently, increasing to 70 percent in 2002, and only to 100 percent thereafter. MSAs are not generally available, as they are capped as to the number of individual policies that can be sold, and they have stringent conditions on their deductibility. FSAs are not fully utilized because they operate under a "use or lose" restriction whereby money not spent in one year cannot be carried over to the next year. Currently, long-term care insurance does not qualify as a permissible expense for use of FSAs. Neither are long-term insurance policies generally eligible for tax deductions (except under the earlier mentioned restrictions of meeting the 7.5-percent AGI threshold, or if provided by an employer).

Key Changes to Tax Law Provided by the Health Care Access and Equity Act

Millions Eligible for Immediate 100-Percent Deductibility: Those not receiving subsidized coverage through their employer would qualify for full deductibility of their health insurance costs. These would include:

- **Retirees**: Retirees not receiving subsidized coverage through their employer would qualify for full deductibility of their health insurance costs.

- **Former employees and their spouses**: Those individuals and their former spouses who are temporarily separated from their previous employment, and who are maintaining their previous health coverage through COBRA/TCC and pay at least 100 percent of the average premium of active employees, would qualify.

- **Self-employed:** Allows full deduction of health insurance costs immediately. Some 25 million Americans are in families headed by a self-employed individual — of these five million are uninsured.

Better Benefits for Most Employees in Large- and Medium-size Firms: Those with employer-sponsored FSAs will be able to roll over from one year to the next up to $500 in pre-tax dollars (language identical to S. 300). This will enable these employees greater opportunity for medical care reimbursement not covered by insurance. According to the Congressional Research Service, 52 percent of employees in medium- and large-size firms had access to FSAs.

Long-Term Care Benefits for Seniors: Long-term care insurance (non-employer subsidized) would be fully deductible.

Benefits Anyone Wishing to Open an MSA: Anyone could open an MSA with the accompanying purchase of a high-deductible health insurance policy (the bill language is identical to S. 300). Current restrictions would be removed: cap on the number; limitation to small-business employees; federal workers would be eligible; current sunset would end; and the minimum high-deductible amount for catastrophic policies would increase to $1,000 for individuals ($2,000 for families). Also, the bill allows a penalty-free withdrawal of the MSA balance above the annual deductible.

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